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SUBJECT: ANDHRA PRADESH SOFTWARE EXPORTS SOAR; NAIDU FOCUSES ON
POVERTY

REF: 06 CHENNAI 2607

11. (SBU) SUMMARY: Andhra Pradesh's information technology sector continues to boom, with software exports from the state increasing by almost 50% last year. Despite the growth in IT, politicians of all stripes, including the state's influential former Chief Minister Chandrababu Naidu, are worried that the state's growth is not sufficiently inclusive. Naidu says he is working on a plan to tackle the problem, but many are skeptical that his new thinking is only a cynical response to his 2004 electoral defeat. END SUMMARY.

SOFTWARE EXPORTS SOAR

12. (U) Software exports from the south Indian state of Andhra Pradesh hit a new high in 2006, increasing 48% over the previous year according to media reports. The state is now in fourth place and has a 14% share of India's overall software exports. The sector produced 35,000 new jobs in 2006. During a recent visit to Hyderabad, Andhra Pradesh's political capital and economic hub, political, business, and media contacts we met all expressed optimism about continued growth in the technology sector. U.S. investment in Hyderabad continues to increase: Google recently announced an expansion of its Hyderabad presence which will increase its workforce from 1,000 to 4,000; Dupont signed a Memorandum of Understanding for a \$1 billion biotechnology research and development facility; and California Governor Arnold Schwarzenegger will lead a trade delegation to the city in November 2007.

POLITICOS WORRY GROWTH NOT INCLUSIVE ENOUGH

13. (SBU) Despite strong growth in the IT sector, Andhra Pradesh's politicians worry that the benefits of economic growth are not reaching enough of the state's citizens. Chandrababu Naidu, former Chief Minister and head of the Telugu Desam Party, and the man widely credited with engineering Hyderabad's IT boom, told Embassy New Delhi PolCouns during a May 23 meeting that his biggest concern today is that the common man is not reaping the fruits of economic growth. He said that he is focused on finding a vision for distributing the benefits of growth to India's poor, especially in rural areas. Members of Naidu's party subsequently told post that he has just begun his examination of the problem.

14. (SBU) Andhra Pradesh's current Chief Minister Y.S.R. Reddy, whose Congress party swept into the majority in 2004 on a wave of discontent with his predecessor Naidu's perceived lack of attention

to the rural poor, has committed his government to addressing the concerns of Andhra Pradesh's rural poor while maintaining the momentum of the state's IT sector. Even the Chief Minister's international travel demonstrates this balancing act: in his recent trip to the United States he addressed the World Agricultural Forum and later made a swing through Silicon Valley. Suresh Reddy, the Congress-party Speaker of the Andhra Pradesh Legislature, told post that his party was looking to "bridge the gap" between rural poverty and urban economic development by improving rural infrastructure.

14. (SBU) COMMENT: For Naidu to change his focus to rural poverty shows just how far the political terrain in Andhra Pradesh has shifted. Naidu's party is widely believed to have lost the 2004 election because many in the electorate, especially in the agricultural sector, felt left out of the IT-fueled economic growth that Naidu championed. A media contact and a representative of Hyderabad's large but disproportionately poor Muslim community both scoffed at Naidu's new tune, seeing it as a cynical response to his election defeat. But Naidu is a formidable thinker who successfully realized the at-the-time audacious vision of putting Hyderabad on the map along with Bangalore as an IT hub. If Naidu is sincerely looking to find a way to equitably distribute the benefits of growth, he could help provide leadership in answering one of India's most vexing questions. END COMMENT.

15. (U) The message was coordinated with Embassy New Delhi.

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